

Student Loan Scheme –  
Publicly Available  
Accountability Information

23 June 2000



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# 1 – Introduction

- 1.001 This report is about:
- the Student Loan Scheme (the Scheme);
  - those who have a stake in the Scheme – either as borrowers or administrators, or those who otherwise expect some accountability for the Scheme;
  - what their information requirements are; and
  - whether, in our view, those requirements are being met.
- 1.002 This report is not about the effectiveness of the Scheme in achieving its stated purpose.

## The Student Loan Scheme

### Origin of the Scheme

- 1.003 The Scheme was established in 1992 to assist students to overcome financial barriers to undertaking tertiary study.<sup>1</sup>

### Purpose of the Scheme

- 1.004 The primary purpose of the Scheme is to support the participation of all New Zealanders in tertiary education by:
- providing access to finance for tuition fees and other education-related costs on a non-selective basis; while, at the same time
  - containing the fiscal cost of providing assistance for tertiary study, and maximising the net worth of the Crown.
- 1.005 The initial policy objectives and rationale behind the then Government's decision were that students:
- pay for part of the cost of their education; and
  - recognise the private as well as the public benefits that flow from having a tertiary education qualification – including potentially higher incomes and improved employment prospects.

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<sup>1</sup> *Student Loan Scheme Annual Report*, Ministry of Education, September 1999.

## Key Stakeholders

1.006 Key stakeholders include:

- students – as both potential and actual borrowers – and their families;
- the House of Representatives and its Education and Science Committee;
- the Minister of Education, the Associate Minister of Education (Tertiary Education), other Ministers whose departments are responsible for administering the Scheme;
- central agencies – the Treasury, the Department of the Prime Minister and Cabinet, and the State Services Commission – and responsible departments – the Ministry of Education, Inland Revenue Department, and Department of Work and Income;
- tertiary education providers;
- non-Government agencies – such as banks and lending institutions; and
- the general public.

## Stakeholder Information Requirements

1.007 Stakeholders have asked a range of questions, covering:

- entitlement to a loan;
- uptake and use of loans;
- repayment of loans; and
- assessment of likely impact on students' lives after study.

1.008 Similar questions have been asked by the different groups of stakeholders. The Government is interested in clear and consistent implementation of student loan policy, and reliable data on, and analysis of, the impact of policy decisions.

1.009 However, individual students, prospective students, and their families require similar information that is more specific to their individual circumstances, such as:

- repayment requirements and costs;
- likely long-term impacts; and

- the interaction of those factors with career/study choices.

1.010 Some prospective students do not ask these questions, or ask them after they have incurred a significant debt. It is evident from the issues raised that these students might have reassessed their study plans had such information been made available to them earlier.

1.011 We have categorised stakeholders' information requirements into those relating to:

- fiscal risks (see Section 4, paragraphs 4.001-4.042); and
- intended and unintended socio-economic outcomes (see Section 4, paragraphs 4.043-4.071).

1.012 Appendix 1 (on pages 50-52) summarises the information requirements and the availability of that information.

1.013 The key questions are summarised as follows:

- What do students spend student loans on?
- How long does it take a student to repay a loan?
- How does this differ for different groups (eg Maori, women)?
- What are the future economic and social consequences of accumulating student debt?
- What effect does having a student loan have on the ability to raise a mortgage, own a car, or save for retirement?
- How many students go overseas or declare bankruptcy to avoid repaying student loans?
- Is the student loan debt increasing because more students are taking out loans or because students are taking out bigger loans?
- How is interest on loans calculated and why?
- When will the cash flows on student debt balance out?
- Who has overall responsibility for collecting and analysing student loan data?
- How flexible is the forecasting model for policy development purposes?

- How long will it take me to repay my loan?
- How much interest will I be charged?
- How is this calculated and why?
- Will the interest charged change if I change my repayments?

## Key Findings

- 1.014 In our view, key stakeholders receive adequate information on the current financial position of the Scheme at an aggregate level. However, we think that there are the following shortcomings in public accountability information:
- limited information on the fiscal risks attached to the Scheme; and
  - lack of information on the impact of the Scheme on intended and unintended socio-economic outcomes.
- 1.015 The adequacy of valuation of the student loan debt also needs to be reviewed, especially in light of the expected move to a net present value (“fair value”) model for valuation.
- 1.016 In our opinion, the following related capability and accountability issues need to be addressed to provide better public accountability information:
- fragmented responsibility for the Scheme as a whole;
  - lack of focus of strategic policy advice and research;
  - shortcomings in data collection, analysis and exchange;
  - shortcomings in forecasting;
  - lack of system’s responsiveness to change; and
  - gaps in service to borrowers.

## Recommendations

- 1.017 We recommend that the financial reporting requirements for the Scheme be improved by:
- reporting more regularly – for example, reporting at the quarterly intervals stated in the original Government decision on reporting on the Scheme;



- having annual financial reports audited and presented to the House within the same time as departmental annual reports (sections 35-39 of the Public Finance Act 1989);
- developing an interim response (until fair value methodology is adopted) to the issue of lack of appropriation for debt write-offs;
- including in reports to Ministers and Parliament – especially the Ministry of Education’s *Student Loan Scheme Annual Report* – more information on financial projections, financial performance, fiscal risks, and more detailed analysis of past uptake and repayment patterns;
- including in financial forecasts for the Scheme assumptions and risk assessments;
- developing and reporting against a set of indicators for the financial performance of Scheme; and
- developing and reporting against a set of coherent and assessable outcome indicators for the Scheme – including both intended outcomes and risks of unintended outcomes.

1.018

In order to clarify responsibilities and improve information availability, we also recommend that the related capability and accountability issues be addressed by:

- reviewing the current fragmentation of responsibilities for the Scheme;
- considering (as part of that review) the suggestion of establishing a separate agency (with the appropriate specialist skills) with overall responsibility for strategic risk management of the Scheme and for financial reporting on the Scheme;
- the agency responsible for managing the fiscal risks of the Scheme regularly reviewing the Crown’s credit risk from the Scheme;
- clarifying the responsibility of the Ministry of Education for strategic policy advice on the Scheme – including the purpose and role of research (and its adequate resourcing) and what reporting obligations are included;
- clarifying other agencies’ accountability for collecting and exchanging data for monitoring against socio-economic indicators – to ensure that those agencies supply the appropriate information in a timely manner;
- Statistics New Zealand undertaking a trial integration of selected datasets relating to the Scheme with a view to providing statistics to inform strategic policy, financial risk management, financial reporting, and forecasting;

- directing officials of the relevant agencies to resolve the data exchange issues hindering analysis of the impact of the Scheme;
- the Ministry of Education commissioning research on the areas of socio-economic impact where there is no information; and
- revising the information for students to ensure that they receive adequate information on repayment choices and the potential impact of having a student loan.

## 2 – Background

### Significance of the Scheme

- 2.001 The significance of the Scheme has grown rapidly for the Government, as well as students and their families, since it was established in 1992. The increasing materiality of the total student loan debt has correspondingly increased the importance of adequate public accountability information about the Scheme.
- 2.002 Total net student loan debt has increased from approximately \$900 million in 1994, to almost \$3,000 million at 30 June 1999. Recent estimates by the Ministry of Education’s Central Forecasting Unit (CFU) suggest that:
- student loan debt will reach about \$20,000 million by 2020; and
  - repayments will not balance borrowings until 2012.
- 2.003 If those estimates are well founded, student debt will dominate the Crown’s Statement of Financial Position and will be a significant item taken into account by credit rating agencies. As a major (and growing) asset of the Crown, it is potentially a major source of risk (see paragraphs 4.002-4.009). The intended and actual benefits need to be evaluated against the costs and risks of the Scheme.
- 2.004 According to the statistics of the Ministry of Education:
- the proportion of full-time students taking out loans increased from 39% in 1992 to 70% in 1998; and
  - the average and range of individual student debt is also increasing, so that by 1999:
    - the estimated average cumulative individual debt was \$11,700 – almost double that of 1994; and
    - the maximum individual debt exceeded \$100,000.
- 2.005 By 2024 approximately 17.5% of the working age population will be repaying a student loan. Estimates vary on the length of time it will take individual students to repay their debts – in 1995 50% of borrowers were expected to have repaid their debt by age 40, and nearly 90% by age 65.
- 2.006 From the early stages of the Scheme, it was recognised that lengthy repayment periods would result in some borrowers facing a “lifetime of debt” and dying with part, or all, of their loan not repaid. In 1995, the Ministry viewed “these effects [as] the natural consequences of the income-contingent nature of the scheme, and, from a policy perspective, are not seen as critical issues” (report

to the Cabinet Committee on Education, Training and Employment, September 1995).

- 2.007 Since 1994, the average amount of individual debt has doubled, and the upper range of individual debt has increased significantly. Revised estimates of repayment vary depending on the changing policy parameters of the Scheme and the assumptions underlying forecasts – although the reliability of these assumptions and forecasts is uncertain. As a result, the socio-economic consequences of student debt are now being discussed by Parliament, students, and the wider public, and are also part of a wider debate on funding of tertiary education and how much students should pay for their education.

## Past Reviews

### Audit Office

- 2.008 We reviewed the Scheme in 1994,<sup>2</sup> providing an early assessment of the implementation, practices and procedures of the agencies involved in its administration. Because our 1994 audit was conducted shortly after the Scheme started, the focus was more on the appropriateness of the operating framework, the accuracy of processing of applications, the establishment and management of loan accounts. We found that these were appropriate but that:

- the standard of accuracy of loan application processing needed to be improved; and
- it was desirable that reporting provide an overview of the Scheme's costs and recoveries.

- 2.009 Other findings were that:

- it was too early to comment on the performance of the Inland Revenue Department in collecting student loan debts; and
- it was too soon to know whether the default rate and provisions on the student loan debt were adequate.

- 2.010 We proposed conducting a further audit of the recovery of student loans within five years. This audit is that follow-up but, because of the increasing materiality of the Scheme, the focus is on the risks attached to the Scheme and the information available on those risks.

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<sup>2</sup> *Ministry of Education and Inland Revenue Department – Student Loan Scheme, Report of the Controller and Auditor-General, First Report for 1994, parliamentary paper B.29[94a], pages 8-19.*

## Ministry of Education

- 2.011 The Ministry of Education carried out reviews of the Scheme in 1995, 1996, and 1998. The 1995 review looked at:
- loans issues raised in the May 1994 *Report of the Ministerial Consultative Group on Funding Growth in Tertiary Education and Training* (the “Todd Report”);<sup>3</sup>
  - the key policy parameters of the Scheme; and
  - assistance and incentive measures.
- 2.012 No changes were made to the basic structure of the Scheme as a result of the 1995 review, but some rules were changed on who could borrow and how interest rates were set.
- 2.013 A report commissioned by the internal audit group of the Ministry of Education in 1996 (and referred to in the group’s own report in July 1999) recommended that the level of testing of the sensitivity of critical assumptions be increased, in order to provide a “risk range” for forecasts. This external report also recommended improved links between the forecasting and policy development functions within the Ministry, including policy costings.
- 2.014 The Ministry’s 1998 Review looked at the:
- use of student loan entitlements for non-educational purposes (based on anecdotal evidence);
  - access of young students to student loans without parental consent (based on parent complaint);
  - burden of long student loan repayment periods for some borrowers (based on letters to the Minister); and
  - size of total student loan debt (as affected by the above three items).
- 2.015 Some policy decisions were taken to make adjustments to the Scheme to deal with these issues, including:
- fortnightly instalments of the living cost component (weekly from 2000);
  - direct crediting of the fees component to tertiary education providers;
  - an increase in repayments of capital by some borrowers;
  - a partial base interest write-off while studying;

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<sup>3</sup> Issues raised in the Todd Report are summarised in Appendix 3 (pages 54-55).

- parental consent for borrowers under 18 years of age; and
- increasing the rate of repayment for borrowers on higher incomes.

2.016 Although policy changes were agreed to at the time of the 1998 review, the new government will not implement some of them. For example, the 25% base interest write-off while studying has been overridden by the full interest write-off for full-time full-year students and part-time students earning under the \$24,596 threshold. From mid-2001, at least 50% of repayments (less interest adjustment charges) will go to repay the loan principal. This will mean interest write-offs in some cases.

2.017 In our view, future reviews would benefit from better information on the actual:

- uptake of loan entitlements;
- repayment periods; and
- socio-economic impact of loan debt for students;

and how these factors affect the size of total student loan debt.

### *Inland Revenue Department*

2.018 In 1999 the Inland Revenue Department commissioned AC Nielsen to provide information to help with the development of more effective debt management and communication strategies. The findings were reported in September 1999, the key one of which was the lack of understanding by students of the implications of incurring a student loan debt. The research also identified gaps in understanding of:

- how the loan is structured;
- how interest is calculated; and
- repayment choices and the implications of these for the amount required to be repaid.

2.019 The key time to inform students of these issues is before they obtain a student loan. This research has significant implications for information to students, and is discussed further in Section 5 “Service to Borrowers” (paragraphs 5.054-5.069).

## Recent and Current Reviews

- 2.020 The present Government made further changes to the conditions of the Scheme at the end of 1999 – notably the full interest write-off (CPI and base interest) while studying full time.
- 2.021 The Ministry of Education (in conjunction with the Inland Revenue Department and the Treasury) is also currently reviewing various minor anomalies in the Scheme and the appropriateness of the interest rate methodology – including the margin for administration costs and costs associated with low-risk borrowers.
- 2.022 It is unclear whether future interest rates will reflect other costs of the Scheme – such as interest write-offs. This issue is being examined as part of the review of the interest rate setting methodology, for which a review of interest rate policy is the initial step.
- 2.023 The Government has also:
- indicated a desire to investigate ways to reduce students’ reliance on the Scheme to fund their tertiary education; and
  - recently set up the Tertiary Education Advisory Commission to advise on how the Government can ensure that the tertiary education sector meets New Zealanders’ needs in a knowledge society.
- 2.024 A select committee inquiry is also under way.<sup>4</sup> This inquiry will provide a broader focus on Government resourcing (as opposed to solely student loan policy), and will provide a good forum to publicly examine the social and economic costs of the Scheme.
- 2.025 Despite these reviews, Parliament and the public have continued to express concerns about the Scheme. A number of issues still need to be examined, relating to its fiscal risks and socio-economic outcomes. These are elaborated below.
- 2.026 We therefore undertook this follow-up to our earlier audit, with a particular focus on the availability of information to allow examination and evaluation by the stakeholders of the fiscal risks and socio-economic outcomes of the Scheme.

## **This Audit**

- 2.027 The primary objective of the audit underpinning this report was to assess public availability of information on the Scheme to ensure that public accountability reporting meets the identified information requirements of key stakeholders.

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<sup>4</sup> The terms of reference for the inquiry are set out in Appendix 4 (page 56).

We believe that Parliament and other key stakeholders need adequate, publicly available information on:

- the fiscal risks of the Scheme;
- whether the intended socio-economic outcomes are being met; and
- whether any unintended outcomes are occurring.

2.028 We also examined related capability and accountability issues that came to attention in the course of our audit.

### Audit Approach

2.029 We reviewed relevant documents and interviewed key stakeholders and officials of the agencies responsible for administering the Scheme.

2.030 We assessed availability and integrity of information in relation to the ability to identify, monitor, analyse, and manage:

- fiscal risks;
- intended and unintended socio-economic outcomes; and
- related capability and accountability issues.

2.031 We assessed the availability of information as follows:

- ***Meets requirements:*** Information is currently available in a format which meets current information requirements;
- ***Information is collected, but is not available in a form that meets requirements:*** Information which is or could be made available from current data collection, but which does not readily meet current information requirements (ie the data is collected, but not analysed, formatted, or disseminated in the appropriate form); and
- ***Data is not collected or available.***

2.032 The identified information requirements and our assessment of information availability and integrity against those requirements are shown in Appendix 1 (on pages 50-52).



# 3 – Roles, Responsibilities, and Reporting

## Roles and Responsibilities

- 3.001 The Associate Minister of Education (Tertiary Education) has primary responsibility for the Scheme. The Scheme is jointly administered by:
- the **Ministry of Education** – which has responsibility for education policy;
  - the **Department of Work and Income** – which is responsible for the delivery of income support, including student loans and allowances, and the operational functions relating to their delivery; and
  - the **Inland Revenue Department** – which is responsible for the collection of student loan repayments, via the taxation system, which includes operational functions relating to the Student Loan Scheme Act 1992.
- 3.002 The **Ministry of Social Policy** has responsibility for policy on income support and has a key interest in the relationship of student loans and allowances with the benefit system.
- 3.003 These four agencies have developed a protocol agreement in respect of interagency relationships on student loans and allowances. These relationships and responsibilities are shown in Figure 1 on page 18.

## Administrative Responsibilities

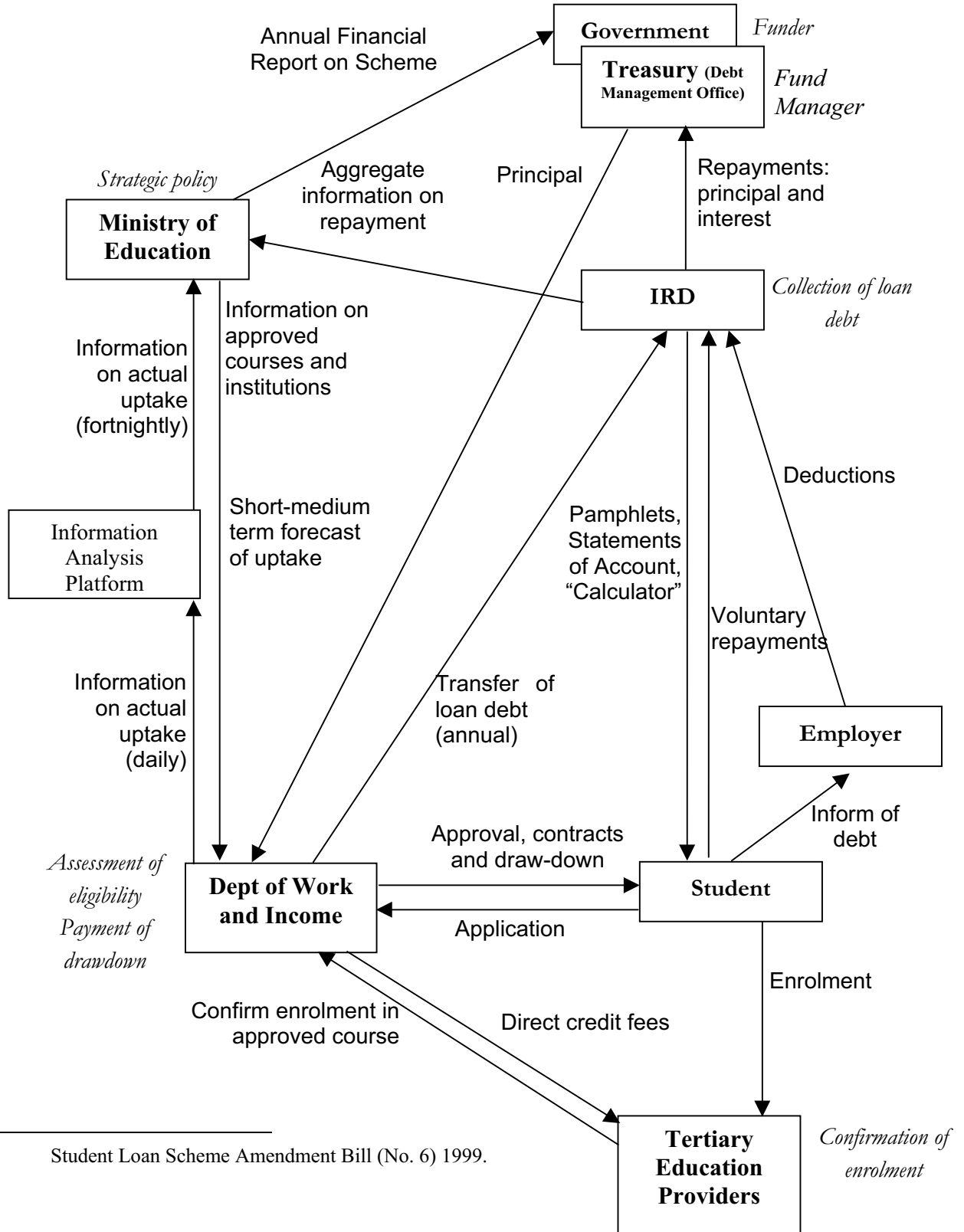
- 3.004 Administration of the Scheme is provided for in two Acts:
- Part XXV of the Education Act 1989, which the Ministry of Social Policy is responsible for managing,<sup>5</sup> contains provisions relating to procedures and regulations for loans and allowances; and
  - the Student Loan Scheme Act 1992, which is administered by the Inland Revenue Department, contains provisions relating to procedures for collection of interest and loan repayments.
- 3.005 The Student Loan Scheme Act also contains provisions relating to the right of a borrower to object to the amount of the borrower’s loan balance before it is transferred from the “loan manager” – now the Department of Work and Income – to the Commissioner of Inland Revenue. The Bill to make the necessary legislative amendments to give administrative authority to the

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<sup>5</sup> STR (99) M21/1.

Department of Work and Income<sup>6</sup> is still before the House and the Department is operating under delegated authority.

**Figure 1**  
**Processing of Student Loans**



<sup>6</sup> Student Loan Scheme Amendment Bill (No. 6) 1999.

## Policy Responsibilities

- 3.006 In 1995 the Government decided that<sup>7</sup> the Ministry of Education would be responsible to the Minister of Education (now the Associate Minister of Education (Tertiary Education)) for the overall management and coordination across agencies for the Scheme, including:
- coordination and provision of policy advice on the Scheme;
  - reporting on the overall Scheme at regular intervals to Ministers;
  - coordination of information exchange between agencies required for planning and reporting processes; and
  - management of external communications strategy.
- 3.007 In the same decision the Inland Revenue Department, in addition to being responsible for the Student Loan Scheme Act, would be responsible for “providing input to the policy, reporting, planning and communications processes” where this is specifically related to its statutory role.
- 3.008 Both departments’ responsibilities would be reflected in their Purchase Agreements.
- 3.009 Both the Privacy Act 1993 and the Credit Contracts Act 1981 affect the administration of the Scheme:
- The exchange of information between agencies is affected by the Privacy Act (see also Section 5, “Data Collection, Analysis and Exchange”, paragraphs 5.018-5.037). The exchange of information about enrolments with tertiary providers is an authorised information exchange match under the Privacy Act.
  - A student loan contract is a credit contract and as such is covered by the Credit Contracts Act.
- 3.010 The eligibility criteria for the Scheme are not legislated for by Act or regulations (other than the interest rate and the repayment threshold), but are contained within various decisions of the Government since the inception of the Scheme in 1992.
- 3.011 With the decision in 1997 to transfer responsibility for student loans and allowances to Income Support (now the Department of Work and Income), the Government:
- directed officials to develop a protocol to outline the responsibilities of each agency in terms of policy roles; and

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<sup>7</sup> CAB (95) M48/16Cv.

- stated that the Ministry of Education retained the strategic policy responsibility for loans and allowances, including the rationale and objectives of the Scheme.<sup>8</sup>

3.012 The agencies developed this protocol with the transfer of student allowances to the Department of Work and Income at the beginning of 1999, and updated it for the transfer of student loans at the beginning of 2000.

### Roles and Responsibilities for Data Collection and Exchange

3.013 The Government considered the feasibility of inter-agency data exchange and related issues,<sup>9</sup> and agreed that, should any data integration take place, Statistics New Zealand be the custodian of the integrated data, and other agencies be stewards.

3.014 An inter-agency group led by Statistics New Zealand – and including the Ministry of Education, the Inland Revenue Department and the Department of Social Welfare – investigated the feasibility of data exchange and integration among agencies.

3.015 In October 1998 Statistics New Zealand produced *The Final Report on the Feasibility Study into the Costs and Benefits of Integrating Cross-Sectoral Administrative Data to Produce New Social Statistics*. This report recommended a “trial integration of selected datasets with a view to producing statistics to inform a set of priority policy questions agreed with the Officials Working Group on Applied Social Science Research”. This trial has not yet taken place.

3.016 A further report went to the Cabinet Strategy Committee at the beginning of 2000 on the *Availability and Collection Standards of Key Integrating Variables across Major Social Administrative Data Sets*. Ministers agreed to the recommendations in the report, including the continuation of work by central government agencies “towards implementing common data standards where those standards are consistent with their administrative responsibilities”.

3.017 An explicit government approval process and data integration protocols to address data security and confidentiality concerns have also been developed, as recommended in the October 1998 report.

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<sup>8</sup> CAB (97) M45/8E.

<sup>9</sup> *Officials Working Group on Applied Social Science Research: Report on Progress*, CAB (97) M31/14.

## Reporting on the Scheme

- 3.018 Public accountability reporting includes both financial and non-financial information. In our opinion, based on stakeholder expectations (see paragraphs 1.007-1.013), non-financial reporting should include information on the intended outcomes of the Scheme as well as on any risks of unintended outcomes.
- 3.019 There are no specific legislative provisions relating to reporting on the Scheme, but there are various mechanisms for the Government to request and receive specific information. Formal accountability mechanisms for meeting information requirements include:
- the Crown Financial Statements;
  - departmental annual reports;
  - reports to Ministers against performance and purchase agreements;
  - sector reports – such as the Ministry of Education’s recent *New Zealand’s Tertiary Sector: Profile and Trends*<sup>10</sup>; and
  - ad hoc reports – such as reports of policy reviews.
- 3.020 In addition to direct regular reporting processes, reporting can occur through (for example) select committee examinations and inquiries and questions in the House.
- 3.021 Current accountability mechanisms primarily report on outputs (see Section 5, Related Capability and Accountability Issues). While the Government receives advice and reports on outcomes through policy advice, there are no specific accountability mechanisms for other stakeholders to receive reports on outcomes or capability issues.
- 3.022 Tertiary education providers, students, non-Government agencies, and the general public can request information and express their concerns:
- by writing letters to Ministers;
  - by making requests under the Official Information Act;
  - through publication of their own reports, surveys and other documents; and
  - through the media.

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<sup>10</sup> First published for the 1999 financial year. We refer to this report from here on as the *Tertiary Sector Report*.

- 3.023 At the end of 1995 the Government adopted as the “official public financial reporting format for the Scheme” a coordinated accountability and reporting framework for the Scheme.<sup>11</sup> The Government directed the Ministry of Education to publish a quarterly report on the financial status of the Scheme according to this framework.
- 3.024 The Ministry of Education has told us that – because of the difficulty of accessing information on a timely basis – quarterly reporting has not been feasible. Instead, the Ministry reports annually.
- 3.025 There has been no review of financial reporting requirements since 1995.
- 3.026 The *Student Loan Scheme Annual Report (SLS Annual Report)* published by the Ministry of Education remains the primary overall public accountability report on the Scheme. Appendix 2 (on page 53) outlines the contents of this report. However, there is no statutory requirement for this report to be:
- presented to the House;
  - produced within a certain time; or
  - audited.
- 3.027 The information given in the *SLS Annual Report* has improved and includes more information than the format agreed by the Government in 1995. Nevertheless, there is room for further improvement. For example:
- little analysis is provided on the fiscal risks attached to the Scheme, now or in the future; and
  - more information could be provided on the financial performance of the Scheme – including (as originally intended) reporting the total cost of the Scheme.
- 3.028 The Associate Minister of Education (Tertiary Education), in his other capacity as Minister of Social Services and Employment, receives short monthly monitoring reports from the Department of Work and Income. These reports contain explanations on short-term variances from appropriations, but not on medium to long-term trends or the extent to which outcomes for the Scheme are being achieved.
- 3.029 Neither the Minister of Education nor the Associate Minister of Education (Tertiary Education) directly receives regular reports from the Department of Work and Income or the Inland Revenue Department. Consequently, the Associate Minister of Education (Tertiary Education) and Parliament lack information on the overall strategic picture, as well as the fiscal and social impact of a student loan on individual students.

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<sup>11</sup> Submitted under ECR (95) 215.

3.030 A review and update of the Government's 1995 decisions (paragraph 3.023) have been discussed and agreed to among the agencies, and is on the work agenda of the Ministry of Education. Many of the issues we raise in this report would be addressed by:

- increasing the frequency of reports to the Minister;
- improvements in accountability for, format of, and presentation to the House of the *SLS Annual Report*; and
- including in the *SLS Annual Report* appropriate information that would inform discussion of the socio-economic consequences of the Scheme, such as actual repayment periods.

3.031 The *Tertiary Sector Report* now also provides brief information on uptake and debt similar to that contained in the *SLS Annual Report*, but no information on:

- repayment patterns;
- debt-income profiles; or
- socio-economic impact.

3.032 The actual length of time it takes graduates to repay their student loans is not reported because it is not known, nor how this time varies according to:

- the type of course undertaken;
- socio-economic group;
- gender; or
- ethnicity.

### Recommendations

3.033 We recommend that reports be made more regularly – for example, the quarterly financial reports stated in the original Government decision on reporting on the Scheme (paragraph 3.023).

3.034 We make further recommendations on reporting on fiscal risks in paragraph 4.042 and socio-economic outcomes in paragraph 4.071.

## 4 – Current Availability and Integrity of Information

### The Fiscal Risks

4.001 As its funder, the Crown bears the fiscal risk attached to the total Scheme, but individual students (both current and former) and their families are also exposed to fiscal risks relating to their loans. In order to meet the identified information needs, we expected that information would be publicly available on the key fiscal risks of the Scheme, including:

- the *size* of the total debt;
- *valuation* of the debt;
- *forecasting*;
- the *financial performance* of the Scheme; and
- *debt recovery*.

#### Size of Total Student Debt

4.002 Stakeholders seek information on both the current and the future size of the student loan debt. Size is driven by a number of factors, including:

- demand for loans (uptake);
- repayment rates;
- interest rates;
- doubtful and bad debts; and
- financing costs.

4.003 We discuss these factors in paragraphs 4.004-4.059. Valuation methodology also affects the size of the total student debt, which we discuss in paragraphs 4.004-4.009.

#### Valuation of the Student Debt

4.004 The value of the student loan debt in the Crown's Statement of Financial Position is net of provision for doubtful and bad debts. The provision was originally set at 15%, but was reduced to 10% for the period ended 30 June



1996 and subsequent periods. We believe the appropriateness of a general provision for doubtful debts of 10% of the gross loan balance needs further refinement.

- 4.005 The Inland Revenue Department does not collect and analyse information on actual repayment patterns, which would assist in assessing more appropriate debt provisioning. The provisioning methodology is under review.
- 4.006 The Treasury is investigating “fair value”<sup>12</sup> as a more relevant measure of student loan debt. While generally accepted accounting practice is clearly moving in the direction of fair value, a number of issues need to be considered which are relevant to student loan debt. These include:
- determining the discount rate; and
  - determining the impact of changes in the Government’s own credit risk on the valuation of the student loan portfolio.
- 4.007 Should any specific risks associated with the loan portfolio be transferred to the financial markets, the costs to the Crown of any such arrangements would also need to be considered.
- 4.008 A move to valuation of the debt on a fair value basis would require a full actuarial valuation. Such an approach would require a more comprehensive analysis of the components of the student debt, for example:
- repayment history by income, age, and occupation; and
  - interest rates, including those exempted from interest.
- 4.009 That analysis would enhance the reliability of valuation over the current approach and improve the responsiveness of the valuation to changes in policy in relation to the Scheme. We believe a fair value approach not only produces a more reliable measure of overall debt, but also measures the impact of any policy changes in relation to the Scheme.

### Forecasting

- 4.010 The *SLS Annual Report* produced by the Ministry of Education contains a three-year forecast of the student loan debt. Forecasts (as best mid-point

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<sup>12</sup> Valuation of financial instruments, and eventually all financial assets and liabilities, is expected to shift from modified historic cost to “fair value”. International Accounting Standard (IAS) 39, promulgated in December 1998, appears to be the most authoritative support for generally accepted accounting practice (GAAP) in this area. This standard significantly increases the use of fair values in accounting for financial instruments, consistent with the direction that has been given to the Joint Working Group of international standard-setters studying further the use of full fair value accounting for all financial assets and liabilities.

estimates) are also disclosed as part of the Budget cycle in the *Economic and Fiscal Update*, although they show only one number (rather than a range) with little in the way of support or assumptions.

- 4.011 The *SLS Annual Report* has not in the past included:
- the methodology used;
  - the assumptions underlying the forecasts provided; or
  - the range or risk surrounding the forecasts provided.
- 4.012 The *SLS Annual Report* for 1998-99 compares student loan interest rates with mortgage rates – rather than with unsecured borrowing as has usually been done in policy statements and press releases.
- 4.013 As noted in paragraph 2.013, a report commissioned by the Ministry of Education in 1996 recommended:
- that the level of testing of the sensitivity of critical assumptions be increased, in order to provide a “risk range” for forecasts; and
  - improved links between the forecasting and policy development functions within the Ministry, including policy costings.
- 4.014 Costings in policy proposals are a key fiscal risk in themselves, rather than just an adjunct to forecasting. Policy costings eventually have to be included in forecasts. Other units within the Ministry of Education produce some costings – which then obtain the Central Forecasting Unit’s (CFU) assurance on the costing work – while some are directly prepared by the CFU.
- 4.015 Accuracy in costings is critical both for the policy itself and how the figures are incorporated into subsequent forecasts. It is important that the CFU is involved early enough to provide adequate assurance.
- 4.016 Good links between forecasting and policy development also ensure that new policy proposals are appropriately incorporated into forecasts.
- 4.017 In addition, the lack of appropriations for debt write-offs may inhibit accountability to Parliament. While a fair value approach to the Scheme would provide a solution to this by being more explicit about changes in the value of the asset, it may be worthwhile considering an interim response to improve parliamentary accountability.
- 4.018 Long-term forecasts are not reported publicly in any detail, which has led to a number of queries from stakeholders about the expected future size of the student loan debt, and when it will balance out. There is a lack of publicly available information on how forecasts are modelled and why they change – and, therefore, a lack of understanding of the forecasts.

- 4.019 In our opinion – based on stakeholders’ information requirements – long-term forecasts should be regularly reported, and the assumptions underlying them regularly reviewed. There is also a lack of linkages between short and long-term forecasts, which has been a concern to some stakeholders.
- 4.020 Capability issues affecting forecasting issues are discussed further in Section 5 (paragraphs 5.038-5.048).

### Financial Performance

- 4.021 **Total Costs** Reporting on financial performance requires taking into account the total costs of the Scheme, which include the costs of:
- borrowing;
  - administration; and
  - write-offs, both of base interest and bad debts.
- 4.022 The *SLS Annual Report* produced by the Ministry of Education does not clearly state who bears these various costs and how much they are. The approved format for reporting (paragraph 3.023) included a discussion on the various ways of measuring the cost of the Scheme to the Crown (accounting cost, net present value, and opportunity costs – although the *SLS Annual Report* does not contain any definition or discussion of opportunity cost). The approved reporting format also included Cost to the Crown, including cost of Government borrowing.
- 4.023 It appears clear that the total costs to the Crown were intended to be included in the financial reports. However, the total costs of the Scheme, and who bears them, are not transparent in the *SLS Annual Reports* – which also do not include the cost of borrowing, recognising only the revenue and interest payments made by students.
- 4.024 Reporting the true cost of the Scheme would ensure that adequate analysis was carried out and reported (for example, on repayment profiles) in order to manage the costs as efficiently as possible. Furthermore, the estimate of “the Government’s true cost of lending” (page 13, 1998-99 *SLS Annual Report*) has not been updated since 1995.
- 4.025 It is important to update this calculation – especially since there have been significant changes to the repayment conditions since 1995. The effect is that Government does not know the current cost of lending, the total cost of the Scheme, or how the Scheme is performing financially.

- 4.026 ***Interest Rate Risk*** A risk premium is added to the interest rate charged. The premium is designed so that high-income low-debt borrowers pay the full costs, including administration, of the loan to them, while the Crown bears:
- the costs of the loan interest of full-time full-year, and low-income part-time, students while studying; and
  - the costs associated with relatively low income borrowers once they have completed study (base interest write-offs); and
  - bad debts.
- 4.027 These relative risks need to be reviewed against the actual history of the Scheme, to the extent that this information is available. Where this information is insufficient, means of collecting and analysing it need to be devised (see Section 5, paragraphs 5.021-5.030).
- 4.028 The Ministry of Education, the Inland Revenue Department and the Treasury are currently undertaking a review of the interest rate methodology, which is likely to reassess the costs of the Scheme. Whether future interest rates will reflect other costs of the Scheme to the Crown – such as costs of reduced interest while studying and base interest write-offs – is not clear and is being examined as part of the review. The first step is a review of the interest rate policy which specifies which costs of the Scheme are met by the Crown and which costs are to be met by borrowers.
- 4.029 Lack of clarity over interest rates increases the fiscal risk to the Crown. Fiscal risk is also affected by the infrequent changes to the interest rate (which is also a risk to students). When interest rates are falling, students bear the cost of higher interest rates, but when interest rates are rising students benefit from the lag in rising costs.

### *Debt Recovery*

- 4.030 ***Credit Risk*** The degree of credit risk on the student loan debt is not clear, and is a key issue.
- 4.031 Credit risk relates to the collectability of debt. This depends on a number of factors including whether the debt can be enforced – were correct procedures followed (such as advising the student to obtain independent legal advice) and are the loan documents accurate, secure, and retrievable?
- 4.032 To date the only legal challenge has been in relation to contracts with students under 18 years of age. Legal challenges are likely to increase as the loans increase in value and age, and borrowers become more sophisticated.
- 4.033 Other factors that contribute to credit risk include the extent to which:

- borrowers do not disclose their debt to employers in order that deductions can be made from their remuneration; and
- the Inland Revenue Department data-matches debt with returns.

4.034 Borrowers may avoid repayment through diverting income through trusts and other vehicles. Although such structures may be legitimate (and may not be able to be challenged by the Commissioner of Inland Revenue), they still affect repayment of debt and hence the value of the debt in the Crown's accounts.

4.035 ***Debt Levels and Range of Estimated Repayment Periods*** Estimated repayment periods have been consistently revised upwards as the Scheme has matured. In 1991, the Ministry of Education estimated that:

- the average student would have a debt of around \$12,700 on graduation, which would be paid off within 10 years;
- in the “most extreme case” a student (say, a newly qualified doctor) would face a debt of \$63,000, which may never be repaid; and
- a teacher with a debt of \$22,000 would repay it within 30 years.

4.036 The maximum individual debt has increased significantly from the original estimates, with about a dozen students now having debts in excess of \$100,000.

4.037 There is no reliable evidence as to whether students go overseas to avoid repaying their debt. Lack of such information makes it difficult to assess bad debts, and to adequately value the student loan debt in the Crown's Statement of Financial Position.

4.038 The AC Nielsen report for the Inland Revenue Department (see paragraph 2.018) said there was evidence that the perception that going overseas enabled borrowers to avoid repayment was changing. Whether such avoidance exists or not, only half of current loan holders (according to the AC Nielsen report) knew that they have to inform the Inland Revenue Department before going overseas.

4.039 The Crown can better manage its credit risk by regularly reviewing these debt recovery factors. There is no evidence that this has been done.

## Conclusions

4.040 There is limited analysis on the fiscal risks attaching to the Scheme, which makes it difficult for Parliament and the public to have an informed debate about the size, valuation, financial performance, and debt recovery of the Scheme. These factors also make it difficult for student loan policy to be reviewed in terms of unintended socio-economic outcomes.

4.041 Improving the *SLS Annual Report* produced by the Ministry of Education would be a relatively easy and timely solution in terms of meeting stakeholders' needs – although it would not meet all needs in terms of socio-economic consequences.

### Recommendations

4.042 We recommend that:

- annual financial reports on the Scheme be required to be audited and presented to the House within the same time as that for departmental annual reports (sections 35-39 of the Public Finance Act 1989);
- an interim response (until fair value methodology is adopted) be developed to the issue of lack of appropriation for debt write-offs;
- reporting requirements to Ministers and Parliament – especially the format of the Ministry of Education's *SLS Annual Report* – be reviewed to include more information on financial projections, financial performance, fiscal risks, and more detailed analysis of past uptake and repayment patterns;
- financial forecasts for the Scheme include assumptions and risk assessments;
- a set of indicators for the financial performance of Scheme be developed and reported against; and
- the agency responsible for managing the fiscal risk of the Scheme regularly review the Crown's credit risk from the Scheme.

## **Intended and Unintended Socio-economic Outcomes**

4.043 We expected that information would be available on:

- the intended socio-economic outcomes of the Scheme;
- the extent to which the intended outcomes were being met; and
- any unintended outcomes.

4.044 Intended and unintended outcomes include:

- participation in tertiary education;
- study choice;

- life choice decisions;
- ability to raise further loans, invest, or save;
- passing on of debt costs through professional fees and costs to consumers;  
and
- effects on the property and labour markets.

4.045 Several of these outcomes affect parents, other family members, and the wider community, as well as student borrowers.

### Participation

4.046 The primary purpose of the Scheme is to support the participation of all New Zealanders in tertiary education by providing access to finance for tuition fees and other education-related costs on a non-selective basis. However, the impact of the Scheme on the participation rate is not known.

4.047 Information is collected on participation and reported in, for example, the *Tertiary Sector Report*,<sup>13</sup> but the information is not analysed in relation to the Scheme. Therefore, the conclusion cannot clearly be drawn that the increased participation means that the Scheme has achieved its primary purpose. In any case, the costs of the Scheme (both fiscal and socio-economic) need to be evaluated against any benefits in terms of (for example) participation.

4.048 The Ministry of Education publishes an annual *Research Report*, which lists all its recent research projects. The most recent *Research Report* shows little Ministry funded research that focuses directly on the Scheme:

- two small-scale projects analysed plans of seventh formers;
- a 1994 project and a 1995 update covered student intentions as regards the Scheme in order to help the Ministry forecast the demand for funds; and
- a 1997 project examined barriers to participation in general terms.

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<sup>13</sup> *The Tertiary Sector Report* contains information on participation (pp.21-22). The report also states that students from lower socio-economic backgrounds are less likely to participate in tertiary education (ibid, p.29). There is limited reference to participation in relation to student loans: “The significance of the student loan scheme needs to be taken into account in interpreting the finding that there is little relationship between fee increases and enrolment change. Participation in the loan scheme has increased since the scheme’s introduction in 1992, and the availability of loans as a means of paying fees may have helped lessen any negative impact of fee increases on tertiary participation” (ibid, p.32). Aspects of enrolment growth have implications for the student loan debt. For example growth is particularly strong for students aged over forty and for women (ibid, p.28). Both groups are less likely to be able to completely repay their loans.

- 4.049 In the last project report, “respondents viewed loans as an undesirable necessity for undertaking further education and training, due to high course fees and inadequate provision of student allowances”. The Ministry has not carried out any research on the relationship between fees, allowances, subsidies to tertiary education providers, and the demand for student loans.
- 4.050 At the end of 1999 a taskforce, headed by Dr Anne Salmond, released *Auckland University Report on Tertiary Education*. Although this report does not specifically cover student loans, it comments on participation in and Government expenditure on tertiary education. The report expresses concern about low participation by students from low-income groups. The barriers to participation and the post-study effects of student debt on low-income groups are issues worthy of further research.

### Study Choice

- 4.051 The only information on the impact of the Scheme on study choice is a brief reference in the Ministry of Education’s AC Nielsen report. There is some evidence that students were choosing “more cost-effective options” – i.e. “courses that are shorter, more practical and with more external outcomes”.
- 4.052 However, there has been no further research on the impact of study costs and student loans on choice of study. Media references have suggested that cost influences choice of study, such as choosing medical specialisations that are higher-paying.

### Life Choices

- 4.053 Life choices include marriage, family, children, jobs, and investments. The Ministry of Education has conducted no research on the impact of student debt on life choices.
- 4.054 In 1998 the Ministry of Youth Affairs (MYA) conducted a limited-range, indicative survey of a network of individuals who had completed tertiary study and were holders of student loan debt, to ascertain their perceptions of the impact of that debt upon their lives post-study. In general, negative views towards student loan debt were expressed at four times the rate of positive views, with comments such as “I did not realise how the student loan debt could get out of hand”.
- 4.055 The MYA concluded that “the survey highlights the need to better inform students of the consequences of student loan debt in terms of future obligations and the impact of the loan upon subsequent life opportunities”. Given the indicative nature of this survey, more rigorous follow up by the Ministry of Education of the issues raised would be useful.



- 4.056 The New Zealand University Students' Association published *Student Debt Casebook* in 1996, which contains various cases of students who have student debt and the impact of that debt on them. The *Casebook* also summarises comments by students (including mature age students) of the negative impacts on their families, their relationships, savings, stress, study choice.
- 4.057 There have been frequent media comments on these issues. Any analysis of the outcomes of the Scheme should also look at how high post-study incomes are.

### Ability to Raise Further Loans, Invest, or Save

- 4.058 Almost 30% of respondents in the MYA survey indicated that they did not disclose their loan commitments when applying for credit.
- 4.059 A survey of bank managers and loan officers by Otago University Students Association in 1999 showed that "around half of the officers had denied people finance because of their student loan, and most of the officers considered that student loans did affect people's ability to get finance". It was further suggested that "many students/graduates may not even approach a bank to ask for finance because they suspect they may be refused".
- 4.060 Although banks may not take into account the loan debt, repayments through the tax system affect students' ability to service other borrowing and are consequently taken into account by lending institutions (should the student loan debt be disclosed). As a result, student debt affects the ability to service, and therefore access, other borrowing.
- 4.061 The Ministry of Education has not attempted to establish the extent of the impact of student debt on other borrowing. The impact of student loans on ability to borrow is seen as minor by the Ministry because of the small number of formal complaints to the Banking Ombudsman (although the Ombudsman's comment was that these cases "may be forerunners of more").
- 4.062 Similar arguments affect students' ability to make other investments and save for retirement because of their reduced ability to save post-study. Non-disclosure of student debt also increases the credit risk faced by lending institutions.

### Professional Fees and Costs to Consumers

- 4.063 The Ministry has carried out no systematic research on the impact of student debt on the professional fees and costs passed on to consumers. Fees charged by doctors, lawyers, dentists, accountants, and other professionals are expected to rise as a consequence of the passing on of student loan debt costs, but no supporting evidence has been gathered.

## Effects on Property and Labour Markets

4.064 The effect of student debt on the property and labour markets is likewise unknown. It is likely that increasing student debt will substitute for mortgages (and hence affect the property market) and other household debt (to some extent).

## Conclusions

4.065 There is a lack of systematic information on the socio-economic impact of the Scheme, including both intended and unintended outcomes. This is the area where the information gap is greatest, and also the most critical.

4.066 There is no information on the impact of the Scheme on the rate of participation in tertiary education. Nor is there publicly available information on the effect of the Scheme on:

- unintended socio-economic outcomes, such as choice of study (subject and length of study);
- the ability to borrow, invest, or make savings (also affecting retirement);
- life choice decisions (marriage, children, jobs);
- professional fees and costs to consumers; and
- effects on the property and labour markets.

4.067 ***Intended Socio-economic Outcomes*** As we stated in our *Third Report for 1999*, we believe that Parliament will be better able to judge the merit of the Government's proposed and actual expenditure if the estimated impact of the expenditure is made clear.<sup>14</sup>

4.068 It is also essential that intended outcomes are specified in measurable terms, and that they are actually measured and monitored. The absence of empirical information means that it is difficult for Parliament to obtain assurance that the very considerable sums spent on student financial support are having the intended effect (or, indeed, any effect).

4.069 ***Unintended Socio-economic Outcomes*** It is important that the risk of unintended outcomes is assessed, monitored and managed. We believe that Parliament needs more information about both intended and unintended consequences than it is currently receiving.

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<sup>14</sup> Parliamentary paper B.29[99c], page 50.

4.070 The ability to identify and manage the risk of not achieving intended outcomes, or of unintended consequences occurring, depends on:

- organisational capability – especially information and control systems;
- accountability mechanisms; and
- inter-agency data exchange capability.

### Recommendations

4.071 We recommend that:

- a set of coherent and assessable outcome indicators, including both intended outcomes and risks of unintended outcomes, be developed for the Scheme;
- the Ministry of Education be required to report against these outcome indicators; and
- the Ministry commissions research on the areas of socio-economic impact where there is no information.

## 5 – Related Capability and Accountability Issues

- 5.001 In the course of our audit a number of related organisational capability and accountability issues became apparent, which need to be addressed in order to better meet key stakeholders’ information requirements.
- 5.002 These issues are:
- fragmented responsibility for the Scheme as a whole;
  - lack of focus of strategic policy advice and research;
  - shortcomings in data collection, analysis and exchange;
  - shortcomings in forecasting;
  - lack of systems responsiveness to change; and
  - gaps in service to borrowers.
- 5.003 There is limited reporting to Ministers on capability issues.

### Fragmented Responsibility

- 5.004 Although the fiscal risks are significant, the management of them is not clearly the responsibility of any particular agency or group of agencies. Individual agencies have *administrative* responsibility for uptake and collection, and for rules about eligibility and entitlement, but responsibility for managing the fiscal risks attaching to the Scheme as a whole is not clear.
- 5.005 The Scheme is a “virtual bank” spread across different agencies. By 2020 the Scheme will be one of the largest “banks” in New Zealand, but there is a lack of many of the specialist skills which would be expected of much smaller lending institutions.
- 5.006 The Crown does not manage the Scheme as a separate fund, which makes it difficult to assess the Scheme’s financial performance. Furthermore, it is unlikely that the organisations currently responsible for administering the Scheme have the appropriate specialist skills to manage the fund.
- 5.007 The Accident Rehabilitation and Compensation Insurance Corporation (ACC) funds, in contrast, are managed by one specialist organisation. The ACC unfunded liability is valued annually on an actuarial basis, assisted by information developed over 25 years of operation. Now the Scheme is

maturing, this should enable further analysis of information in a similar way to the ACC unfunded liability.

- 5.008 The systems of the agencies that are responsible for administering the Scheme are focused on processing uptake of loans or collection of debt, rather than collecting data to enable analysis for policy purposes. This is primarily due to a lack of clear accountability for obtaining, analysing, and reporting information for policy analysis purposes. Consequently, departmental performance is assessed against various processing measures, with no agency being accountable for ensuring that the overall outcomes of the Scheme are met.
- 5.009 Although the Ministry of Education is responsible for strategic policy advice, there are no clear outcome indicators or reporting requirements for this. Similarly, individual departmental annual reports contain little information on the Scheme, as expenditure on administering the Scheme is immaterial in departmental accounts.
- 5.010 Nor is the Scheme as yet a material item in the Crown Financial Statements – meaning that references to it in those statements are short. The Scheme is listed under “investment income” in the Statement of Financial Performance, and under “advances” in the Statement of Financial Position. In contrast, the Crown Financial Statements include a reconciliation of the changes in ACC reserves, since ACC is reported as a separate fund.
- 5.011 It was suggested to us during the course of our audit that one option for improved strategic risk management could be the establishment of a separate agency (or a separate unit within an existing agency). This agency would have:
- the appropriate specialist skills;
  - overall responsibility for strategic risk management of the Scheme; and
  - responsibility for financial reporting on the Scheme.
- 5.012 We believe that such an option could be evaluated in the course of a review of the current fragmentation of responsibilities for the Scheme.

## **Strategic Policy Advice and Research**

- 5.013 Although responsibility for administering the Scheme is fragmented, the Ministry of Education has clear responsibility for strategic policy on the Scheme. The Ministry therefore has responsibility for collecting adequate information for the purposes of policy advice, costing of that advice and financial management of the Scheme, including sufficient information for the Treasury to analyse the Crown’s Statement of Financial Position.

- 5.014 The Ministry of Education has not given its attention to reporting against key stakeholders' information requirements in terms of fiscal risk and intended and unintended socio-economic outcomes. In practice the Ministry's activities have been limited to the current work programme – which presently involves reviewing the interest rate methodology and dealing with a number of minor anomalies.
- 5.015 Because the Ministry of Education no longer has any direct administrative role in terms of loan uptake and debt collection, it is reliant on the Department of Work and Income and the Inland Revenue Department for information about them. Data exchange issues (including privacy issues) are significant, particularly in relation to debt-income profiles (see under “Data Exchange” in paragraphs 5.031-5.037), and the ability to match these to uptake patterns. Although the Ministry has been seeking better information from the Inland Revenue Department, it is not clear how information would be used in terms of policy analysis and reporting.
- 5.016 Research supports policy advice. Therefore, research strategy is critical to the quality of policy advice. The objectives of the Ministry of Education's research strategy are not clear, nor whether the research is based on risks identified in the sector.
- 5.017 The Ministry of Education's research unit is now looking at how it can better support the Ministry's policy advice function. For example, the research unit does not currently contribute to the new *Tertiary Sector Report*, which would be useful in terms of publicly available information. The Ministry has not commissioned any research on the socio-economic impact of student debt.

## **Data Collection, Analysis and Exchange**

- 5.018 The Ministry of Education made considerable efforts in the past to obtain relevant information from the Inland Revenue Department. The Ministry has expressed its frustration at the past shortcomings in data collection, analysis and exchange.
- 5.019 Quality is critical to data collection, analysis and exchange for the purpose of informing policy advice. It is possible to obtain greater benefit from existing administrative datasets. In particular, the matching of data from the Inland Revenue Department, Ministry of Education and Department of Work and Income at a unit record level would significantly increase the capacity to carry out research on the effects of the Scheme.
- 5.020 The additional information would underpin future policy development, and would also serve to validate future modelling of costs of potential changes to the Scheme. Other agencies' responsibility to provide information as an input to policy advice was part of the Government's 1995 decision (paragraph 3.007) but was not actively pursued at the time.

## Data Collection and Analysis on Uptake

- 5.021 There is no clear responsibility on the Department of Work and Income to provide information to the Ministry of Education for policy analysis purposes. The Department of Work and Income:
- collects data on name, date of birth, sex, ethnicity, course of study and provider, and IRD number through loan applications;
  - accesses real-time enrolment data directly from providers; and
  - obtains information on approved providers and courses from the Ministry.
- 5.022 In our view, the Ministry of Education’s own ‘data warehouse’ development may not have taken sufficiently into account the information needs of other users such as the Department of Work and Income.
- 5.023 Data transfer on loan drawings is in a transition phase. The Department of Work and Income transfers the data daily to the Information Analysis Platform (IAP) operated and maintained by the Ministry of Social Policy. The IAP is a ‘data warehouse’ that holds a copy of the data from the Department of Work and Income’s production systems – such as the Income Support computer system (SWIFTT) and the Student Allowances and Loans computer system (SAL).
- 5.024 The Department of Work and Income is currently providing support for the Ministry of Education to use its access to the IAP to obtain data on both loans and allowances.
- 5.025 Some short-term measures are in place to manage the current ongoing external reporting requirements. In the short term the Department of Work and Income has provided limited data from the production system and from the IAP. In future, the Ministry of Education is expected to access this information more frequently and directly off the IAP. Data on drawings enables the Ministry to undertake short to medium-term forecasting (which it carries out under contract to the Department for appropriation and monitoring purposes). The data will also aid strategic policy advice.
- 5.026 The Ministry of Education has received little data from the Department of Work and Income to enable useful analysis on uptake of loans (or allowances). More information would be useful – for example, to examine the reasons why students draw down less than their entitlement of living costs (58% of entitlement at end of September 1999).
- 5.027 Data on loan uptake could also usefully be analysed and reported by loan type (fees, course costs, living costs) as each has different characteristics. If allowances were added to the analysis, demographic information could be

included. Currently, such information (for example, socio-economic status) is not collected with loan applications, nor is it collected for student allowances – although the tertiary education provider that the student is attending is collected.

- 5.028 The Ministry of Education currently prepares a statistical report for internal distribution, based on existing data. This would be a useful starting point for improving external reporting.

### Data Collection and Analysis on Repayment

- 5.029 The Inland Revenue Department's systems were not designed to provide a wide range of demographic and other analytical data. As with the other two agencies responsible for administering the Scheme, the IRD has conflicting priorities for resources and funding when developing processes and systems. There may be increased costs associated with the scope of data that the Inland Revenue Department would be required to collect, and either its analysis or its supply to a third party.

- 5.030 The Inland Revenue Department is in the process of a major 'data warehouse' development that will eventually enable analysis of debt-income profiles and repayment patterns (see paragraph 5.044), but the data exchange issues remain unresolved. Of the data collected by the Department of Work and Income, only name, date of birth, IRD number, and loan details are transferred to the Inland Revenue Department with the transfer of the loan balance, since this is the only data relevant to debt collection. However, this restriction limits the potential analysis of repayment patterns by course of study, ethnicity and gender.

### Data Exchange

- 5.031 There are several interrelated functions that data exchange supports:

- strategic policy advice;
- strategic risk management;
- forecasting; and
- financial reporting.

- 5.032 Effective policy analysis and evaluation, costing, and production of student loan statistics require access to and, most usefully, matching of unit record data. This requires data exchange between agencies responsible for administering the Scheme – particularly from the Department of Work and Income and the Inland Revenue Department to the Ministry of Education, because the Ministry is responsible for forecasting and strategic policy advice.



- 5.033 A certain level of data exchange between the Department of Work and Income and the Inland Revenue Department is required for administration of the Scheme. In addition, with the proposed move to fair value valuation of the student loan debt, data exchange with the Treasury will also be important for valuation purposes (requiring similar data to that required for forecasting).
- 5.034 No arrangements have yet been put in place to exchange data at the level required to adequately support the functions listed in paragraph 5.031 (see also paragraph 3.017). It is technically feasible to integrate data across agencies – especially if an individual identifier is available.
- 5.035 The two key issues preventing improved data exchange are the lack of accountability for collecting and exchanging information for policy advice, and privacy issues (particularly for the Inland Revenue Department). Agencies are currently discussing the confidentiality issue. It is important to find ways to match data at the unit record level without compromising taxpayer confidentiality.
- 5.036 One way that data matching can take place is for Statistics New Zealand to undertake this function as an “approved use” under the Statistics Act (section 81(4)(d)). The collated data can then be transferred to the Ministry of Education and other agencies without compromising taxpayer identity and privacy.
- 5.037 This arrangement could be investigated as the “trial integration of selected datasets with a view to producing statistics to inform a set of priority policy questions agreed with the Officials Working Group on Applied Social Science Research” agreed to by the Government.<sup>15</sup> As discussed above (see paragraph 3.013) the Government has already agreed that Statistics New Zealand be the custodian of any integrated data should integration take place.

## Forecasting

- 5.038 The Ministry of Education (under contract to the Department of Work and Income) and the Inland Revenue Department carry out short to medium-term forecasting of loan uptake and repayment for the purposes of administering the Scheme. The Ministry undertakes medium to long-term forecasting for policy purposes. There is uncertainty about future responsibility for forecasting uptake of loans.
- 5.039 Various policy changes have affected the accuracy of forecasting – particularly the short-term forecasts (such as of the full interest write-off). There are also presentational issues – forecasts tend to focus on average or expected values,

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<sup>15</sup> *Final Report on the Feasibility Study into the Costs and Benefits of Integrating Cross-Sectoral Administrative Data to Produce New Social Statistics*, October 1998, recommendation 1, page 9.

rather than spread or risk. The accuracy of the TESLA model used for medium to long-term forecasting depends on:

- factors such as income profiles; and
- adequate data on actual uptake and repayment.

### Systems Integrity and Forecasting Risk

5.040 An external review carried out in May 1999 rated the risk profile for student loans as “high” (and higher than any other area of forecasting by the Ministry of Education). Reasons included:

- the risk of politically sensitive information being misconstrued and taken out of context by third parties (hence the importance of including assumptions with forecasts); and
- the magnitude of the behavioural effects of policy changes on student loan draw-downs is difficult to predict.

5.041 The external report also noted the risk associated with the “excessive use” of proprietary spreadsheets, as well as the lack of user documentation. The Ministry of Education has to rely on these proprietary spreadsheets in its forecasting system in order to accommodate policy changes.

### Accuracy of Forecasting

5.042 The TESLA model used by the Ministry of Education is sensitive to changes in interest rates, as well as real wage growth and inflation. The model is inherently conservative – assuming current patterns of life-cycle patterns of study, workforce participation, child rearing and retirement, and income difference due to gender or ethnicity.

5.043 Accuracy of the model depends on the quality of information on actual borrowing and repayment patterns (among other data). Insufficient information on actual uptake and repayment, debt-income profiles, and actual bad debts, reduces the reliability of forecasts. The different characteristics of the three components (fees, course costs, and living costs) also need to be distinguished in forecasts as well as in analyses of uptake.<sup>16</sup>

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<sup>16</sup> The Ministry of Education says that this was seen as something that would be improved upon during system redesign at the time of transferring responsibility for delivery of student loans to the Department of Work and Income.

## Debt-income Profiles

- 5.044 The “missing link” which would improve forecasting accuracy is that between student income and student debt (debt-income profiles) – information on which is not currently linked in the Inland Revenue Department’s computerised system. To create the link, student debt and student income need to be matched at the unit level – which can only be done manually at present.
- 5.045 The Inland Revenue Department’s system is designed to calculate taxpayer liability, not provide analysis. The new ‘data warehouse’ development is expected to enable such analysis to take place – although there is still uncertainty about accountability (and funding) for doing this. However, the ‘data warehouse’ will still not provide analysis by course of study, gender or ethnicity.
- 5.046 Nevertheless, matching data containing those two sets of details from the Department of Work and Income and the Inland Revenue Department would enable this analysis.

## Links Between Forecasting and Actuarial Valuation

- 5.047 Accounting standards are expected to shift to a fair value model for valuation of financial assets such as student debt. The Treasury has investigated the feasibility of an actuarial model for valuing the student debt, based on discounted expected cash flows. The study commissioned by the Treasury concludes that: “there are no impediments, in terms of available data, to performing an actuarial valuation of the student loan portfolio”.<sup>17</sup>
- 5.048 The actuarial model could also potentially be used for forecasting or modelling for policy analysis, as it requires similar data. However, data exchange issues make common usage of this model for purposes other than production of the Crown Financial Statements problematic.

## **Responsiveness to Change**

### Meeting Demand for Loans

- 5.049 Recent policy changes to interest rates and repayment conditions have also increased demand for student loans, which has had an impact on the capability of the Department of Work and Income to process loan applications in a timely fashion. This also came at a time when a new computer system was being implemented. The timing and speed of changes also came at the busiest time of year for Student Services, and compounded the effect of volume increases.

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<sup>17</sup> *Report on Data Issues for the Purposes of an Actuarial Valuation of the Student Loan Portfolio* – report prepared by Aon Consulting for the Treasury, 10 August 1999.

5.050 These factors increase the risk that demand cannot be met in a timely fashion. These and other issues affecting the Department of Work and Income's capability to process loans (particularly in a time of transition) are the subject of a separate ministerial inquiry.

### Changes to Interest Rates and Repayment Conditions

5.051 Departmental systems are slow in response to change – particularly to interest rates and other changes affecting repayment. This is partly because of debt collection through the tax system, but also because of competing priorities for systems upgrades.

5.052 Debt collection through the tax system means that any changes to repayment conditions – such as interest rates or repayment thresholds – require consequent change to:

- information provided to employers; and
- IRD systems;

in order to make the appropriate deductions.

5.053 This limitation also increases interest rate risk to the Government, because interest rates cannot be changed as frequently as they would be in the banking system.

## **Service to Borrowers**

### Terms and Conditions of Loans

5.054 Although a student loan is a credit contract, student borrowers are not offered services comparable to those offered by banks. For example:

- terms and conditions of loans are not negotiable, other than additional voluntary payments;
- borrowers cannot take out fixed-term loans, table loans, or fix the interest rate for specified periods;
- interest rates are changed infrequently, exposing borrowers (as well as the Crown) to interest rate risk; and
- repayment thresholds can be changed by the Crown, further exposing borrowers to financial risk when they may have other financial commitments.

- 5.055 The Inland Revenue Department is primarily a tax collection agency with an annual income tax cycle. As such, there are constraints on what can and cannot be done, and the timing of any changes must fit within the annual cycle. The Department's systems do not comfortably accommodate what is essentially a banking facility, nor were the systems designed to provide a range of demographic and other analytical data (see paragraphs 5.044-5.046).

### Budgetary Advice

- 5.056 At present no budgetary advice is offered to students other than a "budget planner" in the booklet provided to students applying for a loan. This only helps students to calculate how much they need to borrow – not how long it will take to repay the loan.
- 5.057 At the time students take out their loans, they do not receive information from the Department of Work and Income or other agencies on the possible future impact of their student debt – including the impact on their ability to raise other finance post study. The income-contingent nature of the repayment of student loans means that the ability to repay has not been viewed as an issue for the Crown at the time the money is borrowed.
- 5.058 Furthermore, students and other stakeholders do not receive information on the extent to which undertaking tertiary study may increase their future income (and, consequently, their ability to repay their student loan debt). Past estimates of the difference in lifetime earnings have not been based on comparable groups of school leavers. This is an area where further research would be useful.

### Repayment Obligations and Choices

- 5.059 Students currently receive adequate information on entitlement and repayment conditions, and the loan statements issued to borrowers by the Inland Revenue Department have improved. However, it is still difficult for students to assess their expected repayment period.
- 5.060 The longer the repayment period, the longer time (when ultimately working) students spend at a higher effective marginal tax rate and lower net income. This may act as a disincentive to earn, as well as the ability to raise other finance such as mortgages, save for retirement or make other investments. From the Crown's point of view, longer repayment periods increase credit risk.
- 5.061 The Inland Revenue Department has obtained information on students' understanding of their obligations and choices. According to the 1999 report by AC Nielsen commissioned by the Department, this understanding appears limited, including –

*. . . how the loan is structured, and the implications of the loan structure and interest calculation methods on repayment choices. Specifically, while borrowers acknowledge that the earlier they pay back the loan, the less interest they pay, they do not understand the pay back time implications or the interest repayment implications of merely complying with their standard repayment obligations. Nor do they always understand how the interest is calculated. Some clearly have difficulty interpreting what the six monthly statements mean for them.*

5.062 Debt collection through the tax system probably clouds students' understanding that they can vary the repayment period. This is exacerbated by the debt being effectively "invisible" because deductions are made directly from income.

*Despite the fact that two in five of current loan holders are aware that they can pay more than the standard income deduction, the incidence of this is relatively limited.*

5.063 Finally, students with large loans –

*. . . tended to be paralysed by the uncertainty of how they can ever pay off the loan. There is a clear need to assist these borrowers by giving them repayment options that make them feel they can manage the loan.*

5.064 Students need more effective assistance in calculating the benefit of faster repayment through voluntary payments (where this is possible).

### Obligations When Overseas

5.065 The Ministry of Education has no data on the number of students going overseas to avoid student debt.

5.066 It is difficult for the Inland Revenue Department to assess whether borrowers have gone overseas without informing them – there may be a variety of factors why students have not filed returns, including going overseas. The Inland Revenue Department mostly detects such borrowers from parents stating that the borrower cannot file a return as he or she no longer resides in New Zealand.

5.067 The obligation to make repayments when overseas (and the penalties incurred for not doing so) appears to be poorly understood by borrowers, although the Inland Revenue Department has a booklet available on the subject.

5.068 Student debtors who are overseas and file "Nil" tax returns receive large interest write-offs that as a non-resident they are not entitled to. They are also unlikely to be meeting their repayment obligations.

- 5.069 Reciprocal tax agreements with Australia and the United Kingdom are being investigated, which may partly alleviate the problem. However, because there would be little advantage to Australia or the United Kingdom in these arrangements they may not eventuate. A more effective solution may be to undertake data matching with the New Zealand Customs Service.

## **Attempts to Address these Issues**

- 5.070 The agencies responsible for the Scheme are making some attempts to address these issues but are hindered by a lack of clear accountability for managing and reporting on the Scheme as a whole. Some of the information necessary to identify, monitor, analyse, and report on fiscal risks and socio-economic outcomes is available within the agencies concerned – although sometimes it is not collected or available in an appropriate format – and some information is not collected at all.
- 5.071 To assist students, the Inland Revenue Department recently designed a “calculator” which calculates the changes in repayment periods for individual debts if repayment amounts are changed (either through taking out a lesser amount or through making additional voluntary payments on an existing loan). Students can now access this information by telephoning the Department, and are expected to be able to access this information directly over the Internet in the future.
- 5.072 Extending the use of the “calculator” to prospective borrowers could be useful to improve their understanding of repayment obligations and choices. Access to that information would enable prospective students to calculate the potential financial impact of taking out a student loan (if they are aware of the facility early enough). However, in our opinion, improvement of information to students also needs to take place before or (at the latest) when they take out loans.

## **Conclusions**

- 5.073 It is important that the responsible agencies have clear and specific accountability for collecting, analysing and disseminating information on the Scheme as a whole, in order for Parliament and the wider public to have informed debate.
- 5.074 Similarly, efficient and accurate forecasting is essential for the efficient operation of the Scheme and analysis of possible impacts of policy options.
- 5.075 Lack of specific information provided to students and prospective students (for example, on expected repayment periods) makes it more difficult for them to make informed decisions about study choice and the possible future financial impact on themselves and their families.





## Recommendations

5.076 We recommend that:

- the Ministry of Education’s responsibility for strategic policy advice, the purpose and role of research (and its adequate resourcing), and what reporting obligations that includes, be clarified;
- other agencies’ accountability for collecting and exchanging data for monitoring against socio-economic indicators be clarified – to ensure that those agencies supply the appropriate information in a timely manner;
- the current fragmentation of responsibility for the Scheme be reviewed;
- in the course of that review, consideration be given to the suggestion of establishing a separate agency, or a separate unit within an existing agency, with the appropriate specialist skills, overall responsibility for strategic risk management of the Scheme, and responsibility for financial reporting on the Scheme;
- Statistics New Zealand undertake a trial integration of selected datasets relating to the Scheme with a view to providing statistics to inform strategic policy, financial risk management, financial reporting, and forecasting;
- officials of the relevant agencies be directed to resolve the data exchange issues hindering analysis of the impact of the Scheme; and
- information for students be reviewed to ensure they receive adequate information on repayment choices and the potential impact of having a student loan.

## **Appendix 1**

### **Information Required and Available**

Risk Areas	Information Required	Information Availability
<p><i>Fiscal Risks</i></p> <p>Size of debt Valuation of debt Forecasting Financial performance of loan scheme Debt recovery</p>	<p>Demand for loans (uptake) –</p> <ul style="list-style-type: none"> <li>• subsidies to providers</li> <li>• fees</li> <li>• allowances</li> <li>• access to emergency unemployment benefit</li> <li>• entitlement rules</li> <li>• budget advice</li> <li>• non-financial factors (see socio-economic outcomes below)</li> </ul> <p>Repayment rates –</p> <ul style="list-style-type: none"> <li>• loan balance</li> <li>• repayment rules</li> <li>• HR status (age, gender, ethnicity)</li> <li>• employment status</li> <li>• income and income growth</li> <li>• tax status</li> <li>• voluntary repayments</li> <li>• mortality</li> </ul> <p>Interest rate risk –</p> <ul style="list-style-type: none"> <li>• fund management practice</li> <li>• interest rate methodology</li> <li>• base interest and full interest write-offs</li> <li>• IRD systems responsiveness</li> </ul> <p>Doubtful and bad debts –</p> <ul style="list-style-type: none"> <li>• residence status validity</li> <li>• loss overseas</li> <li>• bankruptcy</li> <li>• fraud</li> </ul> <p>Credit risk –</p> <ul style="list-style-type: none"> <li>• legal enforceability of loans (document security)</li> <li>• disclosure to employers of loan</li> <li>• income diversion</li> </ul> <p>Financing costs –</p> <ul style="list-style-type: none"> <li>• Administrative costs</li> <li>• Cost of borrowing</li> </ul>	<ul style="list-style-type: none"> <li>• Aggregate information is available on the current position of the Scheme.</li> <li>• Limited information on the fiscal risks attached to the Scheme.</li> <li>• The adequacy of the valuation/provision on the student debt is uncertain.</li> <li>• The financial performance of the scheme is unknown since total costs are not reported nor is the fund separately managed.</li> <li>• Discrete information is available on loan uptake, other subsidies, fees, allowances, community wage student, but there is no information on how these factors impact on the demand for loans.</li> <li>• There is no information on actual repayment rates, debt-income profiles, or how these differ according to gender or ethnicity.</li> <li>• There is very limited information on the extent to which graduates go overseas or become bankrupt (or any other factors) to avoid repayment.</li> <li>• No detailed long term forecasts are published.</li> <li>• The methodology, underlying assumptions, and range/risks surrounding forecasts are not published.</li> </ul>

Risk Areas	Information Required	Information Availability
<p><i>Socio-economic Outcomes</i></p> <p>Participation in tertiary education</p> <p>Study choice –</p> <ul style="list-style-type: none"> <li>• Subject/field</li> <li>• Length of study</li> <li>• Further study</li> </ul> <p>Life choice decisions –</p> <ul style="list-style-type: none"> <li>• Marriage</li> <li>• Children</li> <li>• Job choice</li> <li>• Investment decisions</li> </ul> <p>Ability to raise further loans, invest, or save</p> <p>Professional fees and costs to consumers</p> <p>Effects on property and labour markets</p>	<ul style="list-style-type: none"> <li>• attitudes to borrowing</li> <li>• values</li> <li>• motivation to study</li> <li>• financial</li> </ul> <p>(AC Neilson)</p>	<ul style="list-style-type: none"> <li>• There are no clear, assessable indicators for socio-economic outcomes.</li> <li>• There is a lack of systematic information on the socio-economic impact of the Scheme, including intended and unintended socio-economic outcomes.</li> <li>• No evaluation studies or research has been carried out or commissioned by government agencies on the socio-economic impact of the Scheme.</li> <li>• There is very limited information on how the Scheme affects study choice or life choice decisions.</li> <li>• There is some limited evidence from non-government organisations of the negative socio-economic impact of the Scheme.</li> <li>• Information on study choice (EFTS by category) collected by the Ministry, but correlation with uptake of student loans not carried out.</li> <li>• Other government agencies (MYA) and non-government agencies (NZUSA, OUSA, University of Auckland) have undertaken limited research on the impact of student debt.</li> </ul>

Capability and Accountability Issues	Information Availability
<p>Strategic risk management</p> <p>Strategic policy advice and research</p> <p>Data collection, analysis and exchange between agencies</p> <p>Forecasting</p> <p>Fraud</p> <p>Responsiveness of departmental systems to changes in processing requirements</p> <p>Accountability for outputs</p> <p>Privacy constraints</p> <p>Service to borrowers</p>	<ul style="list-style-type: none"> <li>• There is limited reporting to Ministers on capability issues.</li> <li>• There is fragmented responsibility for the Scheme as a whole.</li> <li>• The Scheme is not managed or reported on as a separate fund.</li> <li>• There is limited reporting on the Scheme in the Crown Financial Statements.</li> <li>• Strategic policy advice and research lack focus.</li> <li>• There are no clear outcome indicators or reporting requirements.</li> <li>• There are shortcomings in data collection, analysis and exchange to support strategic policy advice, strategic risk management, forecasting, and financial reporting.</li> <li>• There is limited information on the accuracy and efficiency of processing of applications by the Department of Work and Income.</li> <li>• Forecasting accuracy is variable, especially for medium to long-term forecasting, and dependent on a number of factors.</li> <li>• Forecasts are presented in terms of average or expected values, with little information on sensitivity, range, or risks.</li> <li>• Insufficient information on actual uptake and repayment, debt-income profiles, and actual bad debts, reduces the accuracy of forecasts.</li> <li>• There are no detailed publicly available long-term forecasts.</li> <li>• The extent of fraud in the Scheme is not specifically monitored.</li> <li>• Departmental systems are slow in response to changes such as interest rates or repayment conditions.</li> <li>• Systems design and capacity focused on processing rather than analysis.</li> <li>• Competing priorities for upgrading systems.</li> <li>• There are gaps in services to borrowers, including negotiable terms, budgetary advice, and advice on repayment periods.</li> </ul>

## Appendix 2

### Outline of the Ministry of Education's 1998-99 Student Loan Scheme Annual Report

<i>Foreword</i>	
<i>Financial Support for Tertiary Study (policy summary)</i>	<ul style="list-style-type: none"> <li>• Who should participate in Tertiary Education?</li> <li>• What is the Government's financial contribution?*</li> <li>• Universal Tertiary Tuition Allowance*</li> <li>• Student Allowances*</li> <li>• Student Loan Scheme</li> </ul>
<i>The Administration of the Scheme</i>	<ul style="list-style-type: none"> <li>• 1992-1999 the Ministry of Education's Role</li> <li>• 2000- The Department of Work and Income's Role</li> </ul>
<i>The Elements of the Student Loan Scheme</i>	<ul style="list-style-type: none"> <li>• Eligibility</li> <li>• What can be borrowed?</li> <li>• Interest</li> <li>• Base interest write-offs – 1999*</li> <li>• Base interest write-offs – from 2001/02 tax year*</li> <li>• Loan repayments</li> <li>• Repayment rate and repayment threshold</li> <li>• Non residents</li> </ul>
<i>The Costs of the Student Loan Scheme*</i>	
<i>The 1998 Review of the Student Loan Scheme</i>	<ul style="list-style-type: none"> <li>• Adjustments to the loan scheme*</li> </ul>
<i>General Student Loan Scheme Statistics</i>	<ul style="list-style-type: none"> <li>• Uptake of student loans by gender and attendance status*</li> </ul>
<i>Student Loan Scheme Financial Report for Period ended 30 June 1999</i>	<ul style="list-style-type: none"> <li>• Comment on Table 1: Fiscal years 1992/93 to 1998/99 (Table attached as Appendix 1)*</li> <li>• Table 2: Range of student loan debt</li> <li>• Table 3: Average student loan debt*</li> <li>• Table 4: Base interest write-offs*</li> <li>• Table 5: Small balance write-offs*</li> <li>• Table 6: Deceased and bankrupts</li> <li>• Table 7: Administration costs</li> </ul>
<i>Appendix 1: Fiscal Years 1992/93 to 1998/99</i>	

\* Not previously included.

## Appendix 3

### Summary of Issues Raised in the Todd Report 1994

The primary purpose of the Todd Task Force was to provide advice to the Government on the appropriate proportion of public and private contributions to tertiary education, taking into account issues of efficiency or resource use by institutions and the impact of the Government's purchasing arrangements (p.164).

Loans issues raised in the report include:

- inadequate communication on loans and allowances in Pacific Island languages (p.11);
- under-representation in tertiary education and training by Maori and low-income people (p.18);
- non-financial barriers to tertiary education (p.19);
- compatibility between the living cost allowance of student loans and other forms of income assistance (p.160);
- reluctance “to assume debt in any form, let alone increased levels (for students levels of debt impose considerable psychic costs and stress and limit future lifetime opportunities” (p.159)); and
- the rate of interest (p.161).

Submissions raised some major issues on the student loan scheme:

- “the subsidy in the current scheme should be reduced since arguments in support of a loans scheme do not necessarily justify subsidising loans;
- the loans scheme should be more concessionary with a lowering of the interest rate to 0-2% – raising the salary threshold for loan repayments to the average weekly wage was suggested;
- the addition of ten cents to the effective marginal tax rate faced by graduates has a negative effect on incentives to work and save;
- students from low income families are risk averse (Maori and Polynesian students are reluctant to incur debt);

- some students will never earn enough to repay their student loans – in particular, women are more constrained than men because of lower earning and family responsibilities;
- graduates who wish to borrow to set up businesses or to acquire housing face restrictions on the availability of funds due to student debt;
- increased support for students should be provided in the form of higher borrowing limits and the ceiling should be limited to cover tuition fees;
- students should be allowed to access the loan scheme for study at accredited institutions overseas;
- the current treatment of student loans in the government accounts was questioned. Student loan repayments should be applied to the tertiary sector;
- the present system of loans is cumbersome and imposes high administration costs;
- the loans scheme is extremely open ended with few financial safeguards;
- the termination of the student emergency unemployment benefit at the end of February each year and the delay in payment of allowances and loan assistance until April causes financial problems for some students; and
- the loans scheme should only apply to fees.”

(pp.47-48)

It is not clear which of these issues the 1998 review was intended to pick up. Many of these issues are still raised today.



## **Appendix 4**

### **Terms of Reference for the Current Select Committee Inquiry**

The Education and Science Committee is carrying out an inquiry into:

- the strengths and weaknesses of the current system of student fees, loans, and allowances;
- the future social and economic impacts of student debt, including the sustainability of the Scheme;
- the implications of the current funding model for the quality of education, course selection, skill availability, and the ‘brain drain’; and
- any other matters to do with the resourcing of tertiary education.

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